



State Investment Commission
Monthly Meeting Minutes
Wednesday, June 24, 2015
9:00 a.m.
Room 205, State House

The Monthly Meeting of the State Investment Commission (SIC) was called to order at 9:04 a.m., Wednesday, June 24, 2015 in Room 205, State House.

I. Roll Call of Members

The following members were present: Mr. J. Michael Costello, Ms. Faith LaSalle, Mr. Thomas Mullaney, Ms. Paula McNamara, and Treasurer Seth Magaziner.

Also in attendance: Mr. John Burns and Mr. Allan Emkin from Pension Consulting Alliance, general consultant; Mr. Greg Balewicz and Ms. Rakhi Kumar of State Street Global Advisors, index manager; Mr. Thomas Lynch of Cliffwater, alternative investment consultant; Ms. Sally Dowling of Adler Pollock Sheehan; Mr. Robert Benson and Ms. Marie Langlois; Ms. Anne-Marie Fink, chief investment officer, and members of the Treasurer's staff; Ms. Tiffany Spudich and Mr. Joe Bill Wiley of Capital Cities, 529 plan consultant, joined via phone.

Mr. Thomas Fay, Mr. Robert Giudici and Mr. Andrew Reilly were absent.

Treasurer Magaziner called the meeting to order at 9:04 a.m.

II. Approval of Minutes

On a motion by Ms. Reback and seconded by Mr. Costello, it was unanimously

VOTED: to approve the draft of the minutes of the May 27, 2015 meeting of the State Investment Commission.

III. 529 Plan Quarterly Review & RFP

Ms. Spudich gave a brief summary of the program. The plan ended the quarter with \$7.4 billion in assets. It was up \$36 million from the previous year's end. She went on to review the performance of the program. She said Capital Cities is continuing to monitor the age-based and fixed-allocation portfolios given the volatility-management strategy. They have also implemented quarterly calls with AB to make sure they're comfortable with AB's positioning and management.

She said since the last meeting, the plan has moved to the least expensive investment share classes, which saved participants roughly \$300,000 annually in management fees. They are currently working with AB to replace the small-cap growth plan, as previously approved. The 529 plan's investment policy has been finalized and executed.

Ms. Spudich added that they identified some funds that were misclassified in Savingsforcollege.com and they have worked with the rating service to fix that. Those corrections will help with the program's rankings going forward. Additionally, they have started fee discussions with AB and have also created a program manager RFP draft.

Ms. Fink noted that AB has been the program administrator since inception. She thinks it would be a great time to issue an RFP. She asked for the SIC's permission to do so.

The commission asked questions and discussed.

On a motion by Ms. LaSalle and seconded by Mr. Mullaney, it was unanimously

VOTED: to give notice to AB that the current contract will not automatically renew and would terminate in June 2016.

An additional motion was made by Ms. LaSalle and seconded by Mr. Mullaney, and it was unanimously **VOTED: to issue an RFP for the 529 program administrator**

IV. Legislative Mandate Research Consultant RFP

Treasurer Magaziner said that the General Assembly has imposed certain restrictions on investments in scrutinized companies that do business in Sudan, Iran and Northern Ireland. He asked the SIC for a vote to issue an RFP for a consultant to provide research to help comply with all statutory reporting requirements with respect to these laws. The consultant would develop a list of scrutinized companies as required by statute.

On a motion by Mr. Costello and seconded by Ms. Reback, it was unanimously

VOTED: to issue an RFP for a research consultant for the Sudan, Iran and Northern Ireland legislative mandates.

V. Investment Policy Statement Review

Ms. Fink introduced a draft of the investment policy for real estate, private and public infrastructure asset classes.

Treasurer Magaziner said the SIC would continue to review and would vote on adopting the policy at the next meeting.

VI. Briefing: Equity Factor Tilts Policy—Pension Consulting Alliance

Mr. Burns reviewed the current publicly traded equity portfolio. He gave a summary of the proposed factor-tilt (a.k.a. enhanced-beta) portfolio. The portfolio will focus on developed market equities. The targeted tracking error for the portfolio is 2.0-2.5%. He went on to review the investment managers' role in the portfolio.

Mr. Costello asked how the performance would compare versus a market-cap-weighted index.

Ms. Fink said that based on the work done, the proposed portfolio is outperforming the MSCI World by about 1.5% and featured 0.75% less volatility.

Mr. Burns reviewed the objectives of the portfolio. The goal is to obtain higher return for lower volatility and add diversification. Ultimately, the main objective of the portfolio is to perform better in a bad market. This strategy is consistent with the emphasis on a good risk-return ratio and it diversifies the portfolio further. He reviewed the construction approach of the portfolio. Combining three factors would make the portfolio less volatile and less vulnerable to underperform in specific market environment. Additionally, the proposed solution would be in a separately managed account which is very transparent. He gave an overview of some of the risks involved. He said turnover is higher than with market-cap-weighted index funds and as a result transaction costs will be higher. He cautioned the SIC to remember that the back-tested returns will be different than actual returns.

He added that the SIC will need to decide how much of the portfolio to put in the strategy, what factors to use, and how much tracking error they would be comfortable with.

Treasurer Magaziner said the SIC would do a more detailed deep dive on the specific factors and will continue to discuss next month.

VII. Briefing: Review of 2015 Proxy Season—State Street Global Advisors

Ms. Fink introduced State Street Global Advisors to review how they are extracting value out of proxy votes on behalf of ERSRI.

Ms. Kumar reviewed SSGA's stewardship program. Their goal is to identify outliers and maintain a risk-based approach to the program. They have developed priorities that help their team identify in a systematic manner companies to focus on. Additionally each year they select a sector in which to do a deep dive. This year they focused on global pharmaceuticals and fast-moving consumer goods. In terms of priorities they continue to review board refreshment practices and gender diversity on boards.

She said their focus has been to identify long-term underperforming companies, with the goal of increasing engagement and overall performance. This approach aligns SSGA's stewardship practices with their indexed approach to holdings.

She gave a review of the 2015 proxy season. Proxy access, or the ability of minority shareholders to propose directors for a board through company-issued proxy statements, was a big focus. Also DuPont had a high profile proxy contest this season. The CEO had been streamlining the conglomerate but an activist shareholder wanted her to move faster and proposed their own slate of directors. In combating the activist, DuPont recognized a significant difference between the way long-term index funds and the way activists were voting. The CEO also managed to get 50% of the retail investor shareholders to vote. By having retail investors and long-time shareholders support management, the management slate won. This season SSGA has also seen a trend with increased engagement with independent directors.

Ms. Kumar talked about how they implemented their board refreshment policy, targeting long-serving board members of underperforming companies. This year they found that companies are voluntarily looking at board tenure. She went on to talk about some of the votes they took this season.

The commission asked a few questions.

After Ms. Kumar finished her presentation, , Mr. Balewicz, the relationship manager from State Street Global Advisors, informed the SIC that State Street had received a "Wells" notice from the Securities and Exchange Commission related to the State Street Custody division's use of consultants and lobbyists and the solicitation of business from public pension plans. He explained a "Wells" notice is issued by the SEC staff when they intend to seek permission from their board to move forward with an enforcement action. He reiterated that the notice pertains to the Custody Division and not to the Investment Management Division of State Street, which he represents and which is a vendor to the SIC.

VIII. Rescheduling of July SIC Meeting

Ms. Fink said that the July meeting would be a full-day off-site. She asked for the SIC's vote to reschedule the meeting from July 22 to July 21.

On a motion by Ms. Reback and seconded by Mr. Mullaney, it was unanimously

VOTED: to approve the reschedule the July Meeting of the State Investment Commission to Tuesday, July 21.

IX. Legal Counsel Report

There was no legal counsel report.

X. Chief Investment Officer Report

Ms. Fink reviewed the performance of the portfolio and the market environment for the month of May. The fund was up 0.3% , which was well above the performance of a basic 60/40 allocation. This return puts the fund at 4.1% for calendar year-to-date and 3.7% for fiscal year-to-date. She noted that it's highly unlikely that the fund will reach its 7.5% target by the end of this fiscal year. On a three- and five-year basis, the fund is up 10.8% and 9.6%, respectively. On a ten-year basis, the return is 6.4%. The emphasis remains on long-term returns and controlled risk. She noted that the fund continues to have lower risk than the 60/40, which has led to stronger returns. She reviewed the performance by asset class. She added that she and staff will continue to work on factor tilts. Additionally, they will begin working on drafting the two RFPs approved by the SIC.

XI. Treasurer's General Comments

Treasurer Magaziner welcomed Mr. Benson and Ms. Langlois who were in attendance as guests, and will be officially joining the Commission as of July 1. He noted that the commission maintains a well-balanced mix of members. On performance, he stated that one of the biggest performance drivers this year has been Europe. The SIC will be watching for news coming out of Greece. He also mentioned that Treasury has gotten a very positive response on the action that the SIC took around the new transparency policy. He added that the pension reform legislation had been finalized by the General Assembly, which is a big positive for the state. He thanked the members for their work and their commitment.

There being no other business to come before the Board, on a motion by Mr. Mullaney and seconded by Mr. Costello the meeting adjourned at 10:58 a.m.

Respectfully submitted,

**Seth Magaziner,
General Treasurer**